

Message Text

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ACTION PM-09

INFO OCT-01 EA-11 ADP-00 T-03 IGA-02 AID-20 CIAE-00 INR-09

NSAE-00 RSC-01 DODE-00 OMB-01 TRSE-00 RSR-01 /058 W

----- 038431

R 130920 Z MAR 73

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 8062

C O N F I D E N T I A L SECTION 1 OF 2 TAIPEI 1582

E. O. 11652: GDS

TAGS: MASS, TW

SUBJECT: COUNTRY TEAM ENDORSES FY 73-74 CREDIT
FOR VEHICLE MODERNIZATION

PASS DEFENSE

COUNTRY TEAM MESSAGE

REF: A) STATE 010910; B) TAIPEI 0428; C) TAIPEI 0602;
D) CMAAG 220701 Z NOV 72; E) CMAAG 150701 Z JAN 73

1. SUMMARY: THE COUNTRY TEAM HAS REVIEWED THE MERITS
OF CONTINUED US SUPPORT FOR ROC VEHICLE CO- PRODUCTION
AND CONCLUDES THAT: A) THE PROGRAM IS IMPORTANT IN TERMS
OF ROC' S VEHICLE MODERNIZATION REQUIREMENTS; B) ALTHOUGH
LOCAL PRODUCTION IS MORE ECONOMICAL FOR THE ROC THAN
PROCUREMENT IN THE US, THE PROGRAM WOULD BRING SUBSTANTIAL
BENEFITS TO US INDUSTRY; C) FMSCR FUNDING IS MERITED
THROUGH FY74 WITHOUT ANY COMMITMENT BEYOND THAT DATE;
AND D) GENERALLY WE SHOULD NUDGE THE ROC TO CONSIDER
WAYS OF MAKING BETTER USE OF THEIR UNDER- UTILIZED
MILITARY VEHICLE PRODUCTION CAPACITY.

ACTION REQUESTED: COUNTRY TEAM RECOMMENDS APPROVAL OF
FMSCR FUNDING FOR THE CONTINUATION OF VEHICLE CO- PRODUCTION
FOR FY73 AND FY74, WITH THE SCHEDULE OF FMSCR REQUIREMENTS
FOR THESE YEARS AS AMENDED IN PARAGRAPH 10. END SUMMARY.

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2. AS REQUESTED (REF A) THE COUNTRY TEAM HAS ASSESSED
THE ROC VEHICLE MODERNIZATION CO- PRODUCTION PROGRAM TO

DETERMINE ITS RELATIVE PRIORITY AMONG OTHER ROC MILITARY EQUIPMENT REQUIREMENTS AND TO WEIGH JUSTIFICATION FOR CONTINUED FMS FINANCING OF THE PROJECT ON BOTH MILITARY AND ECONOMIC GROUNDS.

3. PAST PERFORMANCE AND COMPARATIVE (PER UNIT) COST

ESTIMATES: VEHICLE TYPE

1/4 T 1 1/4 T 2 1/2 T TOT

(M151) (M715) (M35)

A) ORIGINAL GOAL

(FY' S 67-74) 5430 4902 8020 18352

(B) REVISED PROGRAM

(FY' S 67-74) 4609 46# 5345 10000

(1) PRODUCED (2849) (46) (4047) (6942)

(AS OF 31 DEC 72)

(2) PLANED (1760) (0) (1298) (3058)

PRODUCTION

(THRU FY 74)

C) PROPOSED 1384 1824 1592 4800

CONTINUATION

(FY' S 75-78)

(D) TOTAL VEHICLES 5993 1870 6937 RIPP

(FY' S 67-78)

(E) CURRENT CO- PRODUCTION

(COST PER UNIT) ## \$3756 -- \$10,148

(F) U. S. PROCUREMENT

(COST PER UNIT) -- \$4531 -- \$12,054

INITIAL YEAR' S TRIAL PRODUCTION.

COMPARATIVE PRICES REFLECT PRE- DEVALUATION ESTIMATES OF THE FULL VARIABLE COSTS OF EACH ALTERNATIVE,(INCLUDING PROCUREMENT OF PARTS OR END- ITEMS, PCH& T, CONFIDENTIAL

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TECHNICAL ASSISTANCE, OVERHEAD, DIRECT AND INDIRECT LABOR, AND ADMINISTRATIVE EXPENSES. NO NEW CAPITAL OUTLAYS ARE ENVISIONED FOR THE CONTINUATION OF CO- PRODUCTION AND, THEREFORE, CAPTIAL COSTS ARE TREATED AS " SUNK" IN BOTH ALTERNATIVEES. THE 1 1/4 T TRUCK IS NOT IN CO- PRODUCTION AT PRESENT; AND, HENCE, COMPARITIVE COST ESTIMATES FOR THIS ITEM CANNOT BE MADE.

(G) ALTHOUGH VEHICLE CO- PRODUCTION HAS BEEN MORE ECONOMICAL TO THE ROC THAN DIRECT PROCUREMENT FROM THE US, COST PERFORMANCE ON THE PROGRAM TO DATE HAS BEEN BELOW THAT ORIGINALLY PROJECTED IN FY66. THAT IS, BY FY74, ROC WILL HAVE PRODUCED 10,000 VEHICLES FOR \$83 MILLION (\$50 MILLION IN FMSCR, AND \$33 MILLION IN ROC FUNDS); THIS SUM WAS ORIGINALLY CONSIDERED AS ADEQUATE FOR THE DPRODUCTION OF 18,352 VEHICLES. TWO FACTORS HAVE CONTRIBUTED HEAVILY TO DOWNWARD REVISION OF PLANNED PRODUCTION; IMPRECISE ORIGINAL COST ESTIMATES LED TO THE ESTABLISHMENT OF UNREASONABLE GOALS; AND US INFLATION, HEAVILY FELT IN AUTOMOTIVE PARTS SUPPLY INDUSTRY, SKEWED LOCAL PRODUCTION POTENTIAL SINCE \$43 MILLION IN FMSCR-- OUT OF \$50 MILLION-- HAS BEEN FOR PURCHASES FROM THE US.

(H) DESPITE ABOVE PRESSURES, LOCAL VEHICLE CO- PRODUCTION OFFICIALS HAVE RESERVED UNEXPENDED \$1.84 MILLION OF ORIGINAL \$50 MILLION FMSCR COMMITMENT. THIS THEY PROPOSE APPLYING AGAINST \$3 MILLION REQUIRED IN FY73 FOR CONTINUATION OF CURRENT PROGRAM.

(I) NOTWITHSTANDING COST ESCALATION CITED ABOVE, ROC EXPENDITURE PER VEHICLE FOR EACH VEHICLE TYPE IN CURRENT CO- PRODUCTION STILL REMAINS BELOW PRICE IF ACQUIRED BY DIRECT US PROCUREMENT.

4. VEHICLE MODERNIZATION REQUIREMENTS: WHILE NOT AT TOP OF US OR ROC PRIORITY LIST OF REQUIRED MILITARY EQUIPMENT, VEHICLE MODERNIZATION IS SUFFICIENTLY IMPORTANT TO MERIT CONTINUED US SUPPORT. VEHICLES PRODUCED IN THE CO- PRODUCTION FACILITY WOULD NOT BE CONFIDENTIAL

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INCREMENTAL OR DIVERTED TO MEET SHORTFALL BUT WOULD REPLACE RAPIDLY DETERIORATING WWII VINAGE VEHICLES. A COMPARISON OF ROC VEHICLE CO- PRODUCTION OUTPUT WITH MODERN VEHICLE REQUIREMENTS NECESSARY TO SUPPORT US- APPROVED, ROC FORCE OBJECTIVES INDICATES THAT THE OVERALL PROGRAM, IF CONTINUED THROUGH FY78, WILL ONLY PARTIALLY MODERNIZE THE ROC MILITARY VEHICLE FLEET. EVEN ALLOWING FOR MUCH LARGER CONTINGENT FORCE REDUCTIONS (COLS (2) TO (3) OF FIGURES BELOW), TOTAL NEW VEHICLE OUTPUT WILL STILL BE LESS THAN REQUIREMENTS FOR MODERNIZATION. ONLY EXCEPTION WOULD BE FOR 1/4 TON WHERE THERE WOULD BE POSITIVE BALANCE IF GRC ACTUALLY CARRIED OUT 30 PERCENT REDUCTION IN FORCE LEVELS. MOREOVER, FIGURES BELOW DO NOT INCLUDE NEW VEHICLE SUPPORT FOR CURRENTLY ACTIVE

UNITS TRANSFERRED TO RESERVE STATUS IN OUT YEARS.

5. REQUIREMENTS AND PERCENT MODERNIZATION PROJECTED FOR END OF FY 78
ARE AS FOLLOWS (COLUMN DESCRIPTIONS
FOOTNOTED);

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ACTION PM-09

INFO OCT-01 EA-11 ADP-00 T-03 IGA-02 AID-20 CIAE-00 INR-09

NSAE-00 RSC-01 DODE-00 OMB-01 TRSE-00 RSR-01 /058 W
----- 038493

R 130920 Z MAR 73

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 8063

C O N F I D E N T I A L SECTION 2 OF 2 TAIPEI 1582

US- APPROVED REQUIREMENTS (1)#6(2) (3)	MODERN ASSETS ON- HAND MODERNIZATION (1) (2) (3)
9128 98.4	
1/4 T 8815 8979 101.9	
8120 110.6	
6097 28.2	
1 1/4 T 5779 1946 33.7	
5318 36.6	
12473 73.7	
2 1/2 T 12073 9187 76.1	
11153 82.4	

(1) FIGURES IN THIS COLUMN REPRESENT CURRENT, US-
APPROVED REQUIREMENTS LEVELS.

(2) THE REQUIREMENTS FIGURES IN THIS COLUMN REFLECT
PROJECTED AUTHORIZATIONS THROUGH FY78, TAKING INTO
ACCOUNT JSOP- FORECAST ROC FORCE REDUCTIONS.

(3) THE FIGURES IN THIS COLUMN PROJECT THE
IMPACT OF A 30 PERCENT REDUCTION IN THE ROC FORCE
STRUCTURE -- A REDUCTION WHICH, IN TERMS OF TROOP
STRENGTH, WOULD BE MORE THAN TWO AND ONE HALF
TIMES GREATER THAN THE JSOP REDUCTION MENTIONED
IN THE PRECEDING NOTE.

6. MODERNIZATION/ MOBILITY: REPEATED CORRESPONDENCE FROM
THE CHIEF OF THE ROC GENERAL STAFF HAS STRESSED THE
ROC' S DESIRE TO FUND THE PROPOSED CONTINUATION OF THE
CO- PRODUCTION PROGRAM WITH FMSCR. SINCE THE CONTINUED
PROGRAM UTILIZES " SUNK" CAPITAL INVESTMENT, IT ENJOYS

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A HIGH PRIORITY IN THE ROC' S FMSCR PLAN/ PROGRAM.
MORE IMPORTANT, HOWEVER, THE CONTINUED PROGRAM WILL
LEAD-- THROUGH MODERNIZATION-- TO A SUBSTANTIAL
IMPROVEMENT IN THE MOBILITY OF REDUCED ROC GROUND FORCES. THE COUNTRY
TEAM CONCURS IN THE GRC VIEW THAT
ENHANCED MOBILITY IS AN IMPORTANT ELEMENT IN A REDUCTION
IN THE GROUND FORCES OF ROC.

7. MULTI- YEAR FINANCING: DESPITE GRC ARGUMENTS FOR MULTI-
YEAR FINANCING, THE COUNTRY TEAM FEELS THAT
CONTINUED MULTI- YEAR FMS CREDIT FUNDING FOR THIS
PROJECT IS NO LONGER JUSTIFIED. THE PROGRAM IS NOW
WELL ESTABLISHED. WHILE FMSCR FUNDING IS JUSTIFIED
THROUGH FY74, IT IS DESIRABLE THAT WE RETAIN LEVERAGE
OF ANNUAL REVIEWS (FY75 AND 76) TO FOSTER LOCAL
ASSUMPTION OF FULL FINANCING AS EARLY AS POSSIBLE.
IN THIS CONNECTION, A PLAN NOW UNDER REVIEW WITHIN
MND ENVISIONS CONVERSION OF SELECTED GOVERNMENT- OWNED
PRODUCTION FACILITIES TO OPERATION BY PRIVATE CONTRACTORS
PERMITTING UTILIZATION OF IDLE ROC PLANT CAPACITY TO
PRODUCE A COMMODITY WHICH, IN TURN, COULD BE
MARKETED IN THE CIVILIAN ECONOMY. ALTHOUGH WE HESITATE
TO ENDORSE ANY SPECIFIC ROC PLAN WITHOUT FULL REVIEW
OF ALL FACTORS INCLUDING LEGALITY OF " CIVILIAN"
UTILIZATION OF EQUIPMENT AND PLANT PROCURED WITH USG-
SUPPLIED MILITARY CREDITS, COUNTRY TEAM BELIEVES ROC
SHOULD BE ENCOURAGED TO FIND WAYS OF RATIONALIZING
ITS CIVILIAN AND MILITARY AUTO INDUSTRIES.

8. DEBT SERVICING: A CONSERVATIVE ANALYSIS OF
POTENTIAL FMSCR BURDEN WHICH WOULD ACCRUE TO ROC,
FACORING THE SMALL INCREMENT INVOLVED IN VEHICLE
PROGRAM INTO TOTAL FOREIGN DEBT, INDICATES ADDITIONAL
LOAD WOULD BE EASILY ABSORBED. OVERALL DEBT SERVICE
RATION- NOW 4.5 PERCENT WILL PROBABLY DECREASE
SLIGHTLY IN FY74, GIVEN THE ROC' S BURGEONING EXPORTS.

9. BENEFITS TO THE US: THE IMPACT OF THE PROPOSED
CONTINUATION OF VEHICLE CO- PRODUCTION ON THE US
ECONOMY CANNOT BE DEFINED BY THE COUNTRY TEAM WITH
PRECISION. CAPITAL INVESTMENT IS ALREADY MADE.
WHETHER GRC CONTINUES PROJECT WITH FMS FINANCING OR
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INDEPENDIENTLY, PURCHASE OF REQUIRED VEHICLE
" KITS" WILL INVOLVE SOMEWHAT LESS RETURN THAN DIRECT

US PROCUREMENT OF FINALIZED VEHICLES. NEVERTHELESS,
THERE WILL BE SUBSTANTIAL AGGREGATE BENEFITS TO US
SUPPLIERS AND TO US EMPLOYMENT.

10. BASED ON THE ABOVE POINTS, THE COUNTRY TEAM
POSITION REGARDING A CONTINUATION OF US SUPPORT FOR
ROC VEHICLE CO- PRODUCTION CAN BE SUMMARIZED AS FOLLOWS:

(A) THE PROPOSAL IS JUSTIFIED IN TERMS OF US-
SUPPORTED MODERNIZATION REQUIREMENTS OF THE CHINESE
ARMED FORCES, AND SHOULD BE APPROVED FOR FMSCR
FUNDING AT A LEVEL OF \$1.16 MILLION FOR FY73,
AND \$6.00 MILLION FOR FY74.

(B) IF THE AMOUNT CITED ABOVE FOR FY73 IS APPROVED,
DOD APPROVAL WILL IN TURN BE REQUESTED TO APPLY
\$1.84 MILLION (UNEXPENDED DURING THE CURRENT
CO- PRODUCTION PROGRAM) TO FY73 FUNDING REQUIREMENTS.
THE TOTAL FOR FY73, THEREFORE, WILL AMOUNT TO \$3
MILLION, AS WAS ORIGINALLY PROPOSED.
MCCONAUGHY

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